

Message Text

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C O N F I D E N T I A L LIMA 9303

EXDIS

FOR ARA - WILLIAM ROGERS; L - MARK FELDMAN; EB - THOMAS ENDERS,
TREASURY - JOHN BUSHNELL; CIEP - WAYNE SHARPE; COMMERCE - DAN
ARRILL

EO 11652: GDS

TAGS: EINV, EIND, EMIN, PFOR, PE

SUBJ: MEETING WITH FOREIGN MINISTER OPENS MARCONA
SECOND ROUND

1. SUMMARY: INTENSIVE HOUR AND A HALF EXCHANGE WITH
FOREIGN MINISTER AND ACTING COMMISSION CHAIRMAN REVEALED
THAT GOP, EAGER TO MOVE TO RAPID SOLUTION OF MARCONA DIS-
PUTE AND RESUME ORE SALES, WAS PREPARED TO MAKE AN INITIAL
OFFER OF SOME \$20 MILLION. WHEN U.S. TEAM REJECTED THIS
FIGURE AS COMPLETELY OUT OF THE QUESTION, FOREIGN MINISTER
REITERATED GOP DESIRE TO REACH SETTLEMENT, AND INDICATED
THAT IN LIGHT OF GREAT POLITICAL DIFFICULTIES A LARGER SUM
WOULD CREATE, HE WAS AUTHORIZING COMMISSION TO CONSIDER
ONGOING ARRANGEMENTS WITH MARCONA AS MEANS OF BRIDGING LARGE
REMAINING GAP IN TOTAL COMPENSATION AMOUNT. END SUMMARY.

2. DEPUTY ASSISTANT SECRETARY FISHLOW, ACCOMPANIED BY
AMBASSADOR AND EINAUDI, MET MONDAY NOON WITH FOREIGN
MINISTER DE LA FLOR AND FOREIGN OFFICE UNDER SECRETARY
DE LA PUENTE. IN PRELIMINARY DISCUSSION. DE LA PUENTE
OUTLINED GOP POSITION, INDICATING DESIRE FOR RAPID SOLU-
TION, HOPEFULLY BY DECEMBER 31, POSSIBLY ON THE BASIS OF
AN AGREED METHOD OF VALUATION AND A TENTATIVE LUMP SUM
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THAT WOULD BE SPECIFIED IN AN AIDE MEMOIRE BETWEEN THE

TWO GOVERNMENTS. DE LA PUENTE ADDED THAT THE GOP HOPED THE USG COULD FACILITATE THE EARLY RESUMPTION OF SALES OF ORE NOW STOCKPILED AT THE MINE. DE LA PUENTE SAID THE COMMISSION WAS NOW THINKING ON THE ORDER OF FIFTEEN TO TWENTY MILLION DOLLARS. THIS CALCULATION WAS BASED ON BOOK VALUE, THE ONLY METHOD POLITICALLY DEFENSIBLE IN PERU, BUT WHICH HAD THE ADVANTAGE FOR U.S. THAT IT GAVE THE PERUVIAN GOVERNMENT GREATER FLEXIBILITY IN FORGIVING MARCONA TAX DEBTS THAT WOULD OTHERWISE HAVE TO BE APPLIED. AS DE LA PUENTE CONCLUDED HIS PRESENTATION, THE FOREIGN MINISTER JOINED THE CONVERSATION.

3. DE LA FLOR OPENED BY REPEATING HIS GRATIFICATION AT THE U.S. TEAM'S RETURNING AND INDICATED THAT HE HAD THE IMPRESSION THAT THE TWO SIDES WERE COMING SUBSTANTIALLY CLOSER TOGETHER. FISHLOW ANSWERED SIMPLY QUOTE NO, A FIGURE OF \$20 MILLION IS COMPLETELY UNACCEPTABLE UNQUOTE. DE LA FLOR APPEARED STARTLED AND REGAINED HIS COMPOSURE BY LISTING WHAT HE CALLED THE POSITIVE POLITICAL DECISIONS TAKEN BY THE GOP TO PROMOTE A SETTLEMENT. IN THE FIRST PLACE, HE SAID, THE NEW GOVERNMENT OF PRESIDENT MORALES BERMUDEZ HAD REVISED THE PRIOR SITUATION IN WHICH MARCONA HAD IN EFFECT BEEN CONFISCATED BY REINTERPRETING ARTICLE VIII TO ENABLE PAYMENT OF COMPENSATION. SECONDLY, THE GOP HAD REMOVED RUIZ ELDRIDGE FROM THE COMMISSION TO PLEASE US AND TO ENSURE THAT NO STALEMATE WOULD ENSUE. THIRDLY, THE GOP HAD AGREED TO ABSTAIN FROM BRINGING LOAN APPLICATIONS IN THE IFI'S TO A VOTE SO AS TO AVOID CONFRONTATION.

4. THE USG, DEL A FLOR ADDED, HAD NOT FULLY RECIPROCATED THE POLITICAL ACTIONS. IN THE FIRST PLACE, SINCE THE GSP LIST HAD NOT BEEN PUBLISHED, HE COULD NOT BE SURE WHETHER PUBLICATION OF THE LIST WAS AS IMMINENT AS PREVIOUSLY CLAIMED BY THE USG REPRESENTATIVES. SECONDLY, HE SAID THAT IN MARKED CONTRAST TO ITS BEHAVIOR TOWARDS THE ALLENDE GOVERNMENT, WHEN THE U.S. HAD FACILITATED THE CONTINUED SALES OF CHILEAN COPPER, THE USG WAS NOT SIMILARLY FACILITATING CONTINUED SALES OF IRON FOR PERU, WHICH WAS NEITHER MARXIST NOR COMMUNIST, AND WHICH WAS NOW ATTEMPTING TO KEEP CONFIDENTIAL

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CRITICISM OF THE U.S. OUT OF ITS PRESS. FINALLY, HE SAID, ALL THAT THE USG TEAM HAD DONE TWO WEEKS BEFORE HAD BEEN TO REITERATE MARCONA'S EARLIER POSITION.

5. THE U.S. SIDE LIMITED ITS RESPONSE TO NOTING THAT THE ILLUSTRATIVE FIGURE OF \$119.8 MILLION USED IN PREVIOUS ROUND HAD IN FACT CONSTITUTED A REDUCTION OF MORE THAN \$50 MILLION FROM MARCONA'S EARLIER REQUEST FOR

\$171 MILLION, A POINT THAT WAS CONFORMED BY DE LA PUENTE. USG FLEXIBILITY WAS DEPENDENT UPON FLEXIBILITY OF GOP. IN ANY CASE, THE AMERICAN TEAM REITERATED, \$20 MILLION WAS UNACCEPTABLE FOR A PROPERTY AS VALUABLE AS MARCONA'S.

6. DE LA FLOR COUNTERED THAT DEMANDING MORE THAN \$100 MILLION FOR MARCONA WAS ENTIRELY UNREASONABLE BOTH IN THEORY AND AS A MATTER OF PRACTICAL POLITICS. THE GREENE SETTLEMENT HAD INCLUDED THE CERRO CORPORATION, WHICH WAS WORTH MORE THAN MARCONA, IN A SETTLEMENT OF ONLY \$72 MILLION--AND THAT FIGURE HAD COVERED A DOZEN OTHER FIRMS INCLUDING GRACE AS WELL. WITH THE GOP'S CRITICS WATCHING EVERY MOVE IT TAKES, THIS PRECEDENT COULD CREATE MAJOR DIFFICULTIES FOR THE NEW MORALES BERMUDEZ GOVERNMENT. HOWEVER, CONCLUDED DE LA FLOR, QUOTE WE HAVE DECIDED TO PAY AND WE WILL PAY UNQUOTE.

7. U.S. SIDE RESPONDED THAT GREENE SETTLEMENT CAME AFTER PERU HAD PAID THE PRICE OF MANY YEARS OF INADEQUATE CAPITAL FLOW AND LOW INTERNATIONAL CREDIT RATING. THAT IS PRECISELY WHAT WE WANTED TO AVOID THIS TIME. THE TOTAL COSTS AND BENEFITS MUST BE TAKEN INTO ACCOUNT. OFFSETTING THE POLITICAL COST OF A HIGHER SETTLEMENT WERE THE ECONOMIC ADVANTAGES OF A RAPID SETTLEMENT.

8. DE LA FLOR THEN SAID THAT, SPEAKING OFF THE TOP OF HIS HEAD AND FOR THE FIRST TIME (THOUGH HE LATER INDICATED HE HAD SAID SOMETHING SIMILAR TO ASSISTANT SECRETARY ROGERS IN NEW YORK EARLIER) THAT IT WAS NECESSARY TO FIND WAYS OF ATTEMPTING TO BRIDGE DIFFERENCES BETWEEN THE BOOK VALUE FIGURES ARRIVED AT BY THE GOP AND THE ONGOING CONCERN CALCULATIONS MADE BY THE USG. HE SUGGESTED THAT SOME MEANS MIGHT BE FOUND TO DO THIS BY CONCLUDING SPECIAL ARRANGEMENTS

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IN TRANSPORT, SALES OR PERHAPS EVEN ADVISORY SERVICES TO BE PROVIDED BY MARCONA TO THE GOP. IN THE PRESENCE OF THE U.S. TEAM, HE INSTRUCTED DE LA PUENTE TO HAVE THE COMMISSION CONSIDER THESE MEANS OF COMPENSATION AS WELL, AND THAT MEMBERS BE ADDED TO THE COMMISSION REPRESENTING APPROPRIATE GOVERNMENT AGENCIES.

9. U.S. SIDE RESPONDED THAT THIS APPROACH OFFERED SOME HOPE OF PROGRESS, ALTHOUGH DE LA FLOR SHOULD BEAR IN MIND THAT USG DID NOT ACCEPT BOOK VALUE, AND THAT THE DETERMINANT OF SUFFICIENCY OF ANY SETTLEMENT CONSISTING OF BOOK VALUE SUPPLEMENTED BY OTHER ARRANGEMENTS COULD ONLY BE MARCONA. MEETING ENDED WITH AGREEMENT TO MEET WITH DE LA PUENTE AND FOREIGN MINISTER AGAIN WEDNESDAY AFTER COMMISSION DISCUSSIONS.

10. COMMENT: ALTHOUGH DE LA FLOR KEPT REITERATING HIS BELIEF THAT THE USG COULD MORE EASILY MOVE FROM ITS POSITION (ASSUMED TO BE \$120 MILLION) THAN PERU FROM ITS POSITION (DE LA FLOR MENTIONED \$25-28 MILLION AS WERE WERE LEAVING), THER IS NO DOUBT THAT ONE SHOE HAS DROPPED. GOP KNOWS IT WILL NOT GET OFF CHEAP. THE OTHER SHOE DROPPED THIS AFTERNOON IN THE COMMISSION MEETING (SEPTTEL).
DEAN

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